

Reeths-Puffer Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2006

Reeths-Puffer Schools

TABLE OF CONTENTS

Management's Discussion and Analysis .....	i - xv
Independent Auditors' Report .....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets (Deficit) .....	3
Statement of Activities .....	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet .....	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Deficit) .....	6
Statement of Revenues, Expenditures and Changes in Fund Balances .....	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	8
Statement of Fiduciary Assets and Liabilities .....	9
Notes to Financial Statements .....	10
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund .....	27
Statistical Data (unaudited)	
Historical Property Valuations .....	29
Major Taxpayers .....	30
School District Tax Rates .....	31
State Aid Summary—Funds From State Sources (including categoricals) .....	32
Operating Tax Levies and Collections .....	33
Labor Force .....	34
Pension Fund .....	35
Debt Statement—Direct Debt .....	36
School Bond Loan Fund and School Loan Revolving Fund Programs .....	37
School Enrollment .....	38

**Reeths-Puffer Schools  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2006**

Reeths-Puffer Schools' management discussion and analysis report is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in its financial position. This section of the financial statements also identifies all material deviations from the financial plan (initial budgets) and discloses individual fund issues and concerns that exist at the close of the fiscal year.

This information is required by GASB 34 (Governmental Accounting Standards Board's Statement No. 34). GASB 34 requires the presentation of two basic types of financial statements; namely, District-wide Financial Statements and Fund Financial Statements.

District-wide Financial Statements

The district-wide statements provide a financial perspective of the District as a whole. These statements use the "full accrual" basis of accounting. There are two (2) district-wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid (full accrual accounting). The intent of this statement is to summarize and simplify the information relative to funding received and expenditures made for various district services.

## Fund Financial Statements

Fund statements are reported under the “modified accrual” method of accounting. Under this basis of accounting, revenues are recorded when received, except where they are measurable and available within sixty (60) days of the close of the fiscal year. Expenditures are accounted for in the period that goods and services are used in school programs; therefore, major payments during the summer for payrolls and benefits belonging to last year’s instructional program are expensed on June 30<sup>th</sup>. In addition, capital asset purchases are expensed when placed in service and are not shown as assets in these statements. Debt payments made in the fiscal year are shown as expenditures in the current year and future debt obligations are not recorded here.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, Capital Projects Fund and the Internal Activities Fund. The General Fund is used to show the operational financial activities of the district for the fiscal year. The primary funding sources for this fund are from local property taxes, state aid per student, state categorical funding for specific programs, federal grants and inter-governmental transfers. Transactions dealing with the school food service and athletics programs are recorded in the School Service Fund accounts. The Debt Retirement Funds are used to record the debt payments of principal and interest amounts. Local property tax funds are used to pay the majority of debt, with any unmet needs being covered by the Michigan School Bond Loan program. The Capital Projects Funds are used to record the costs associated with the acquisition of land, construction or improvement of school facilities, and for equipment purchases in excess of \$5,000. These are subject to depreciation in the district-wide financial statements under school board policy. The Internal Activities Funds are held in a trustee capacity for various student or school related groups’ financial transactions. Monies in these funds are not available for general school use.

## Statement of Net Asset (Deficiency)

<u>Assets</u>	<u>6/30/06</u>	<u>6/30/05</u>
Current Assets	\$12,576,395	\$12,431,644
Capital Assets (cost less depreciation)	48,827,722	49,613,416
Other Long-term Assets	<u>980,049</u>	<u>1,044,776</u>
Net District Assets	\$62,384,166	\$63,089,836
<u>Liabilities</u>		
Current Liabilities	\$12,869,704	\$12,757,925
Long-term Liabilities	<u>73,450,659</u>	<u>74,470,234</u>
Total Liabilities	\$86,320,363	\$87,228,159
<u>Net Asset (Deficiency)</u>		
Invested in Capital Assets (net of debt)	(\$15,893,100)	(\$25,278,564)
Restricted Funds	205,125	592,400
Unrestricted Funds	<u>( 8,248,222)</u>	<u>547,841</u>
Net Asset (Deficiency)	(\$23,936,197)	(\$24,138,323)

The above stated net asset deficiency is the direct result of the district using capital appreciation bonds and the Michigan School Bond Loan and School Loan Revolving Funds to finance major facility construction projects over the past several years. Under these funding programs, the payments against principal and interest costs are delayed to some point in the future; therefore, interest costs compound due to their non-payment. The negative impact of funding school projects by utilizing these particular funding methods is further increased by the fact that the facility values associated with the borrowed funds are decreasing each year due to depreciation.

The amount of the negative District net asset value (asset deficiency) will be affected each year until payments against these debts are activated starting in 2012. These particular funding programs have been available for use by public schools where the community's tax base is insufficient to support the immediate costs of debt associated with meeting current facility needs. The particular capital appreciation bonds the district has are not "callable" for refinancing at a lower rate for several years into the future.

Comments on Major Changes to Net Asset (Deficiencies)

Current Assets - Increased slightly by additional General Fund equity

Capital Assets - Reduced by depreciation.

Current Liabilities - Comparable to prior year.

Long-term Liabilities - Reduced by debt payments.

Statement of Activities

<u>DISTRICT-WIDE REVENUES</u>	<u>6/30/06</u>	<u>6/30/05</u>
Program Revenues		
Charges for services	\$ 937,875	\$ 788,759
Operating grants	4,980,535	5,382,183
General Revenues		
Property taxes	7,848,556	7,278,028
Unrestricted grants	26,940,273	26,622,874
Other revenues	<u>176,334</u>	<u>1,237,804</u>
Total Revenues	\$40,883,573	\$41,309,648
<u>DISTRICT-WIDE EXPENDITURES</u>		
Instruction	\$20,048,837	\$21,739,439
Support services	12,886,432	12,644,772
Community services	86,230	91,028
Food service	1,180,925	1,201,043
Athletics	744,492	698,258
Interest on long-term debt	4,403,356	4,701,055
Unallocated depreciation & amortization	<u>1,331,175</u>	<u>1,583,266</u>
Total Expenditures	\$40,681,447	\$42,658,861
<u>TOTAL NET ASSET CHANGES</u>	\$ 202,126	(\$ 1,349,213)
<u>NET ASSET DEFICIENCIES OF PRIOR YEARS</u>	<u>(\$24,138,323)</u>	<u>(\$22,789,110)</u>
<u>NET ASSET DEFICIENCY</u>	<u>(\$23,936,197)</u>	<u>(\$24,138,323)</u>

Comments on Changes in Net Asset Deficiency

The change reflected above is a reduction of deficiency of \$202,000, or approximately .3% of total assets; therefore, this would indicate that financial conditions were stable and that no significant fiscal issues are of concern to management. The issues of increased state funding for public education and the continued trend of reduced student enrollments remain as concerns as we are making significant operating budget cuts annually to remain fiscally responsible.

### Net Capital Asset Values

	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Change in</u> <u>Accumulated</u> <u>Depreciation</u>	<u>Balance</u> <u>6/30/06</u>
Vehicles	\$ 618,828	\$254,887	\$ 90,118	\$ 66,673	\$ 716,924
Facilities	46,605,657	-	-	1,024,858	45,580,799
Equipment	1,191,996	297,063	-	117,777	1,371,282
Land	934,170	-	-	-	934,170
In-progress	262,765	3,906	42,124	-	<u>224,547</u>
Net Value of Capital Assets					<u>\$48,827,722</u>

The School District disposed of two busses and purchased four additional busses. In addition, the District purchased several copiers, playground equipment, lockers and technology equipment.

### Debt Obligations

<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/06</u>	<u>Due within</u> <u>one year</u>
\$77,959,807	\$2,521,284	\$3,671,802	\$76,809,289	\$3,027,728

The additions to the debt obligations represent \$762,160 of accreted interest on capital appreciation bonds, \$137,005 for a copier equipment capital lease, \$405,095 of accrued interest on the School Bond Loan Fund, \$1,003,871 of new draws on the School Loan Revolving Fund and \$31,394 of accrued interest on the School Loan Revolving Fund.

Investment ratings from Moody's (Aaa/Aa2) and Standards and Poor's (AAA/AA+) remain in effect for the District at this time.



## FUND FINANCIAL STATEMENTS

### 2005-06 General Fund Operational Budget

#### Comparison of Budget to Actual Results

	<u>Initial Budget</u>	<u>Amended Budget</u>	<u>Actual Result</u>
<u>REVENUES</u>			
Local	\$ 3,348,440	\$ 3,439,440	\$ 3,423,233
State	26,534,630	27,155,485	27,257,548
Federal	2,488,460	2,372,080	2,277,814
Transfers and Other	<u>1,771,000</u>	<u>1,816,000</u>	<u>1,964,533</u>
Totals	\$34,142,530	\$34,783,005	\$34,923,128

Variance from Initial Budget +2.3%

Variance from Amended Budget +0.4%

#### EXPENDITURES

Instruction	\$19,692,885	\$20,117,390	\$19,959,920
Instructional Support	4,510,725	4,190,785	4,181,384
Administration	3,093,160	3,211,980	3,170,936
Maintenance	3,055,345	3,356,345	3,355,782
Transportation	1,595,580	1,950,710	1,890,472
Other costs	<u>1,784,515</u>	<u>1,738,830</u>	<u>1,984,558</u>
Totals	\$33,732,210	\$34,566,040	\$34,543,046

Variance from Initial Budget +2.4%

Variance from Amended Budget -0.1%

<u>RESERVE CHANGE</u>	\$ 410,320	\$ 216,965	\$ 380,082
-----------------------	------------	------------	------------

When compared in total, the variances between initial budget, final budget and actual results are minimal considering all the unknowns that exist when the budget is prepared in March of each year. These unknowns consist of such items as student count, employee contracts, state aid, staffing, and tax appeals. The major variances are covered in a following section entitled, "General Fund results for Fiscal Year Ended June 30, 2006".

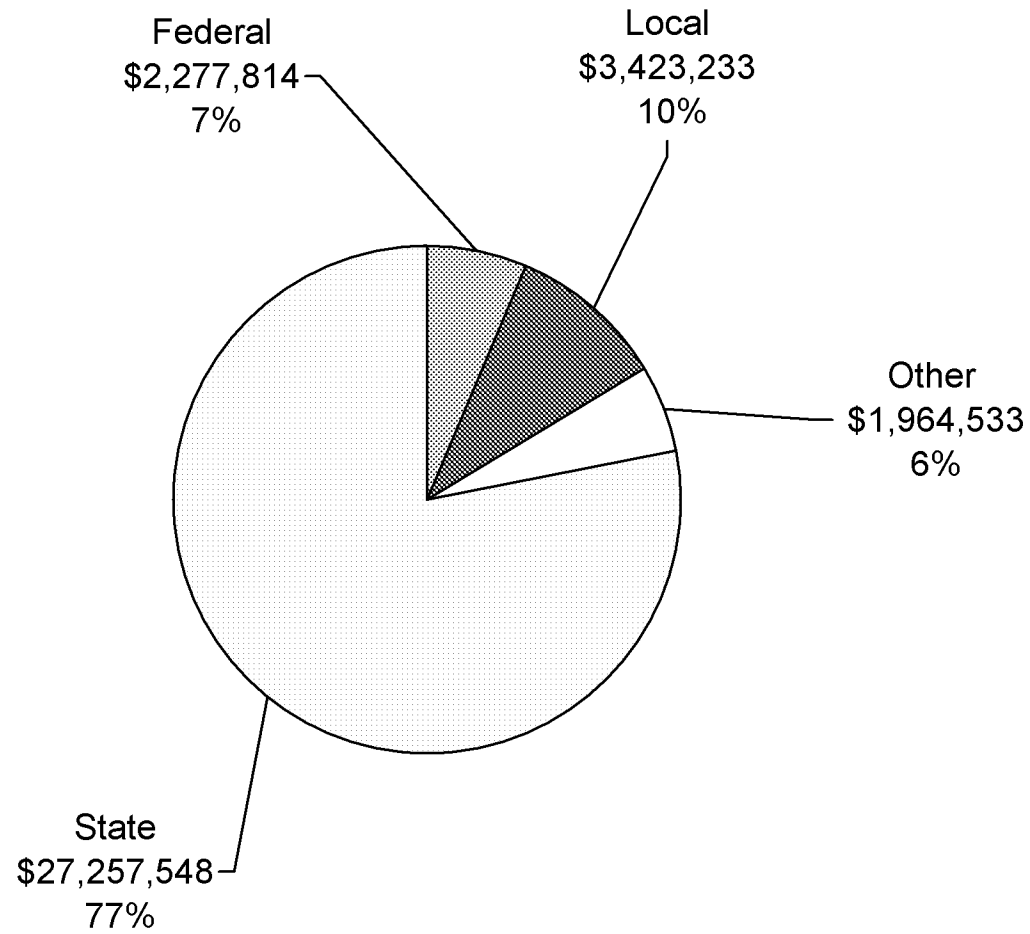
General Fund Year-to-Year Comparison of Actual Results

	<u>Current Year</u>	<u>Prior Year</u>	<u>Difference</u>
<u>REVENUES</u>			
Local	\$ 3,423,233	\$ 3,054,701	\$ 368,532
State	27,257,548	26,967,741	289,807
Federal	2,277,814	2,494,359	( 216,545)
Transfers	<u>1,964,533</u>	<u>1,951,991</u>	<u>12,542</u>
Totals	\$34,923,128	\$34,468,792	\$ 454,336
<u>EXPENDITURES</u>			
Instruction	\$19,959,920	\$20,446,718	(\$ 486,798)
Instructional Support	4,181,378	3,961,024	220,354
Administration	3,170,936	3,349,893	( 178,957)
Maintenance	3,355,782	3,246,811	108,971
Transportation	1,890,472	1,552,531	337,941
Other costs	<u>1,984,558</u>	<u>2,088,045</u>	<u>( 103,487)</u>
Totals	\$34,543,046	\$34,645,022	( \$ 101,976)

On the three pages immediately following are graphs which depict actual general operating revenues and expenditures for fiscal year 2006.

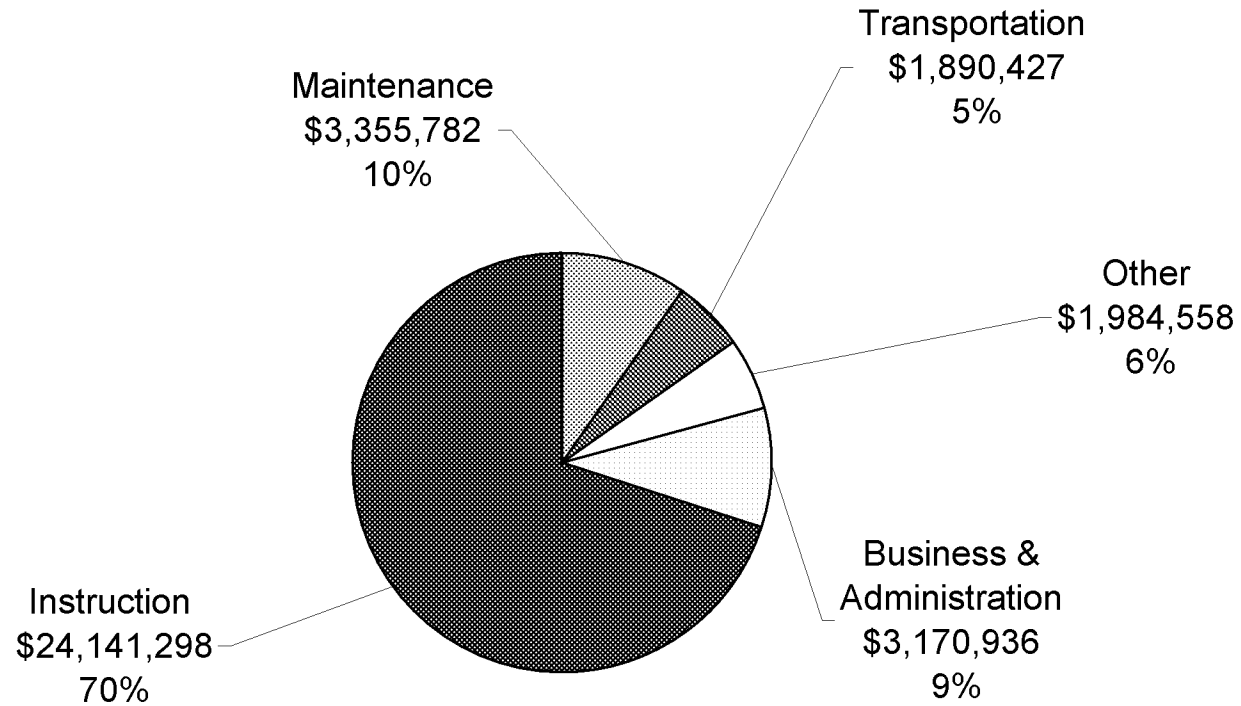
# General Fund Revenue

## \$34,923,128

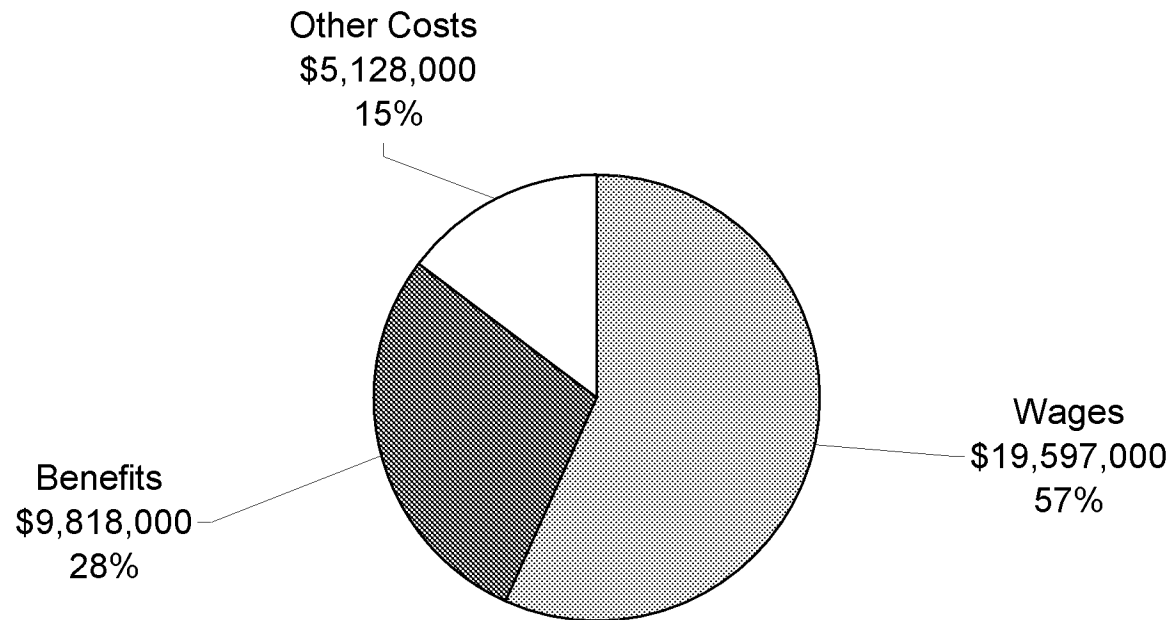


# General Fund Expenditures

## \$34,543,046



# General Fund Expenditures by Major Cost Components \$34,543,000



General Fund results for Fiscal Year Ended June 30, 2006

Beginning Fund Balance (7/1/05)	\$1,939,997
Budgeted Operational Results (revenues less expenditures)	<u>216,965</u>
Anticipated Fund Balance (6/30/06)	\$2,156,962

Revenue Variances over/(under)

Earnings on deposits	\$ 49,000
Property tax adjustments	( 79,000)
State aid	101,000
Transportation billings	22,000
State debt service (Durant)	48,000
IDEA reimbursements	( 81,000)
Miscellaneous federal grants	( 61,000)
Special Education charge-backs	44,000
Capital lease for copiers	137,000
Miscellaneous revenues	<u>( 40,000)</u>

Positive Revenue variance	\$ 140,000
---------------------------	------------

Expenditures Variances under/(over)

General instruction	\$ 78,000
Special education	32,000
Compensatory education	39,000
Speech services	13,000
Psychological services	43,000
Curriculum department	( 23,000)
Library services	16,000
Executive administration	59,000
Transportation	60,000
Capital lease	( 137,000)
State aid loan interest	( 55,000)
Principal and interest on equipment loan	( 48,000)
Property tax written off	( 35,000)
Technology department costs	15,000
Unemployment costs	( 48,000)
Miscellaneous accounts	<u>14,117</u>

Positive Expenditure variance	<u>23,117</u>
-------------------------------	---------------

Ending Fund Balance (6/30/06)	\$2,320,079
-------------------------------	-------------

The explanations for budget variances in excess of \$50,000, which represents just over 1/10<sup>th</sup> of 1% of the district's general fund budget, as follows:

## REVENUES

Earnings on investments increased primarily due to market conditions that produced higher yields on invested funds.

Under the funding formula for education in our state, shortages in property taxes collections based on property evaluation changes that occur during the year are made up through additional state aid; therefore, these two factors basically offset each other.

The State of Michigan changed how it handles the District's repayment of Durant related debt; therefore, this is a new entry on the District's books that was not adjusted for at the time of budgeting.

IDEA revenues are federal reimbursements of actual expenditures. The final grant expenditures were less than anticipated and the remaining funds will be expended in the next fiscal year.

The district entered into a capital lease for copying equipment that will become its property at the conclusion of the lease period; therefore, the amount of the total lease is shown as both a revenue and expense factor in the general fund this year.

## EXPENDITURES

Under spending for basic instruction occurred in the salary and benefit budgets.

Executive administration had reduced legal and auditing fees over the prior year.

Unemployment costs exceeded expectations due to the end of the year decision to layoff all custodial employees as of June 9<sup>th</sup> and have these services performed by a private contractor in the coming years to obtain substantial savings.

The transportation department's under spent budgets in the driver benefit costs.

The increased interest on the State Aid loan was not noted until the time of payment in August and therefore the budget did not reflect the additional costs.

## 2005-06 Other Governmental Funds

	<u>Food Service</u>	<u>Athletics</u>	<u>Combined Debt</u>	<u>Capital Improv.</u>	<u>Combined</u>
Beginning Balance	\$ 87,071	\$ 34,724	\$ 487,169	\$395,641	\$ 1,004,605
Revenues	1,233,141	721,112	5,786,477	87,694	7,828,424
Expenditures	1,220,925	744,492	5,609,340	53,130	7,627,887
Ending Balance	99,287	11,344	664,306	430,205	1,205,142

### Comments

The Food Service Fund will be covering more of its indirect costs through reimbursements to the General Fund; therefore, this fund balance will be reduced over the next few years.

The Athletic Fund deficit spending will be covered in the 2006/07 school year through increased revenue funding from the General Fund to cover program cost increases.

The ending balance in the Debt Fund will be reduced by the District reducing the amount of its borrowing from the Michigan School Bond Loan Fund this year. The state guidelines call for this fund to have a minimal balance at the end of each year.

The capital improvement fund will be reduced by \$80,000 this year as this amount will be used toward the purchase of three new school busses. The General Fund will cover \$106,000 of the costs for these busses. No other capital spending is budgeted at this time.



Currently known facts, decisions, and conditions  
affecting the 2006/07 School Year

Contract Negotiations

As of September 1, 2006 the three MEA bargaining associations of the District have contracts. The professional staff contract expires at the end of August 2007. The support contracts will expire June 30, 2008. Beginning with this school year custodial services will be provided by a private firm.

Initial General Fund Budget

The current adopted budget for the 2006/07 school year has a projected surplus of approximately \$257,000. The budget was based on a foundation base of \$7,075 and a student count of 4,170. This represents a foundation base increase of \$200 per student. At this time the accuracy of these projections appears to be very realistic based on Michigan's current economic condition.

Management's Discussion and Analysis prepared by:

Mr. Dean Van Zegeren  
Assistant Superintendent for Business and Operations  
September, 2006

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 7, 2006

Board of Education  
Reeths-Puffer Schools  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools (the School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 7, 2006, on our consideration of Reeths-Puffer Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education  
September 7, 2006  
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - xv and page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 29 - 38 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

*Brickley DeLong, PLLC*

Reeths-Puffer Schools  
**STATEMENT OF NET ASSETS (DEFICIT)**  
June 30, 2006

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 5,998,045
Receivables		1,247
Due from other governmental units		6,497,200
Inventories		20,174
Prepaid items		<u>59,729</u>
Total current assets		12,576,395
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		1,158,717
Depreciable		47,669,005
Bond issuance costs, net		577,757
Note receivable		<u>402,292</u>
Total noncurrent assets		<u>49,807,771</u>
Total assets		62,384,166
	LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES		
State aid loan		4,750,000
Accounts payable and accrued liabilities		4,333,273
Due to other governmental units		417,113
Deferred revenue		10,688
Bonds and other obligations, due within one year		<u>3,027,728</u>
Total current liabilities		12,538,802
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		<u>73,781,561</u>
Total liabilities		<u>86,320,363</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt		(15,872,134)
Restricted		
Debt service		184,159
Unrestricted		<u>(8,248,222)</u>
Total net assets (deficit)		<u>\$ (23,936,197)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2006

<b><i>Functions/Programs</i></b>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 20,048,837	\$ 12,808	\$ 1,702,779	\$ (18,333,250)
Support services	12,886,432	116,562	2,611,852	(10,158,018)
Community services	86,230	29,500	56,739	9
Food services	1,180,925	622,493	609,165	50,733
Athletics	744,492	156,512	-	(587,980)
Interest on long-term debt	4,403,356	-	-	(4,403,356)
Unallocated depreciation and amortization	1,331,175	-	-	(1,331,175)
Total governmental activities	<u>\$ 40,681,447</u>	<u>\$ 937,875</u>	<u>\$ 4,980,535</u>	(34,763,037)
General revenues				
Property taxes levied for				
General purposes				3,105,493
Debt service				4,743,063
Grants and contributions not restricted to specific programs				26,940,273
Investment earnings				166,175
Miscellaneous				<u>10,159</u>
Total general revenues				<u>34,965,163</u>
Change in net assets (deficit)				202,126
Net assets (deficit) at July 1, 2005				<u>(24,138,323)</u>
Net assets (deficit) at June 30, 2006				<u>\$ (23,936,197)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2006

	General Fund	2002 Capital Projects Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,869,916	\$ 14,556	\$ 1,113,573	\$ 5,998,045
Receivables	1,247	-	-	1,247
Due from other governmental units	6,497,200	-	-	6,497,200
Due from other funds	96,228	6,410	2,166,247	2,268,885
Inventories	-	-	20,174	20,174
Prepaid items	59,729	-	-	59,729
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ 11,524,320	\$ 20,966	\$ 3,299,994	\$ 14,845,280
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
State aid loan	\$ 4,750,000	\$ -	\$ -	\$ 4,750,000
Accounts payable	251,433	-	37,251	288,684
Accrued liabilities	3,563,723	-	-	3,563,723
Due to other governmental units	417,113	-	-	417,113
Due to other funds	221,972	-	2,046,913	2,268,885
Deferred revenue	-	-	10,688	10,688
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	9,204,241	-	2,094,852	11,299,093
Fund balances				
Reserved				
Inventories	-	-	20,174	20,174
Prepaid items	59,729	-	-	59,729
Capital projects	-	20,966	-	20,966
Debt service	-	-	664,306	664,306
Unreserved				
Undesignated				
General Fund	2,260,350	-	-	2,260,350
School service	-	-	90,457	90,457
Capital projects	-	-	430,205	430,205
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	2,320,079	20,966	1,205,142	3,546,187
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	\$ 11,524,320	\$ 20,966	\$ 3,299,994	\$ 14,845,280
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS (DEFICIT)**  
 June 30, 2006

Total fund balance—governmental funds		\$ 3,546,187
---------------------------------------	--	--------------

Amounts reported for governmental activities in the Statement of Net Assets (Deficit)  
 are different because:

Capital assets used in governmental activities are not current financial resources and  
 are not reported in the governmental funds.

Cost of capital assets	\$ 62,335,645	
Accumulated depreciation	<u>(13,507,923)</u>	48,827,722

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	779,739	
Accumulated amortization	<u>(201,982)</u>	577,757

Other long-term note receivable in governmental activities is not reported in the  
 governmental funds.

402,292

Accrued interest in governmental activities is not reported in the governmental funds.

(480,866)

Long-term obligations in governmental activities are not due and payable in the current  
 period and are not reported in the governmental funds.

Bonds and notes payable	(76,084,250)	
Early retirement incentives	(524,468)	
Compensated absences	<u>(200,571)</u>	<u>(76,809,289)</u>

Net assets (deficit) of governmental activities in the Statement of Net Assets (Deficit)		\$ <u><u>(23,936,197)</u></u>
--	--	-------------------------------

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2006

	General Fund	2002 Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 3,105,493	\$ -	\$ 4,743,063	\$ 7,848,556
Investment earnings	118,747	741	46,687	166,175
Fees and charges	150,017	-	763,149	913,166
Other	48,976	-	15,856	64,832
Total local sources	3,423,233	741	5,568,755	8,992,729
State sources	27,257,548	-	73,115	27,330,663
Federal revenues	2,277,814	-	536,050	2,813,864
Total revenues	32,958,595	741	6,177,920	39,137,256
EXPENDITURES				
Instruction	19,959,920	-	-	19,959,920
Support services	13,266,746	-	-	13,266,746
Community services	86,230	-	-	86,230
Food services	-	-	1,220,925	1,220,925
Athletics	-	-	744,492	744,492
Debt service				
Principal	-	-	2,475,958	2,475,958
Interest and other charges	-	-	3,133,382	3,133,382
Capital projects	-	85,006	53,130	138,136
Total expenditures	33,312,896	85,006	7,627,887	41,025,789
Excess (deficiency) of revenues over (under) expenditures	(354,301)	(84,265)	(1,449,967)	(1,888,533)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	1,964,533	-	-	1,964,533
Loan proceeds	-	-	1,010,504	1,010,504
Transfers in	-	-	824,887	824,887
Transfers out	(640,000)	-	(184,887)	(824,887)
Transfers to other governmental units and other transactions	(590,150)	-	-	(590,150)
Total other financing sources (uses)	734,383	-	1,650,504	2,384,887
Net change in fund balances	380,082	(84,265)	200,537	496,354
Fund balances at July 1, 2005	1,939,997	105,231	1,004,605	3,049,833
Fund balances at June 30, 2006	\$ 2,320,079	\$ 20,966	\$ 1,205,142	\$ 3,546,187

The accompanying notes are an integral part of this statement.



Reeths-Puffer Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	496,354
--	----	---------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,331,175)	
Capital outlay	<u>513,732</u>	(817,443)

Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets	(32,978)
---	----------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets (Deficit).	(2,339,525)
--	-------------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets (Deficit).	2,763,561
--	-----------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	(71,325)
--	----------

Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>203,482</u>
--	----------------

Change in net assets (deficit) of governmental activities	\$ <u><u>202,126</u></u>
---	--------------------------

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2006

	Agency funds
	<hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$   217,869
	<hr/> <hr/>
<b>LIABILITIES</b>	
Deposits held for others	\$   217,869
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Reeths-Puffer Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*District-wide and Fund Financial Statements—Continued*

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2002 Capital Projects Fund* accounts for the use of the proceeds from the 2002 School Building and Site Bonds. The Bonds were approved for issuance on December 4, 2001 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The remaining *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation*

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.00
Debt service fund—Homestead and non-homestead	8.37

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	10 years
Furniture and other equipment	10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Early Retirement Incentives**

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.



Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2006, expenditures exceeded appropriations in pupil support by \$68,195 and business by \$236,766.

**School Bond Compliance**

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the Durant Capital Projects Fund and the 2002 Capital Projects Fund from the inception of the funds through June 30, 2006.

	<u>Durant</u>	<u>2002 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 835,081	\$ 22,864,188
Expenditures	771,531	22,826,287

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2006, the School District had no investments.

**Interest rate risk.** In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$3,547,592 of the School District's bank balance of \$6,747,592 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Capital assets, not being depreciated:</b>				
Land	\$ 474,150	\$ -	\$ -	\$ 474,150
Land improvements	460,020	-	-	460,020
Construction in progress	262,765	3,906	42,124	224,547
Total capital assets, not being depreciated	1,196,935	3,906	42,124	1,158,717

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	\$ 56,936,519	\$ -	\$ -	\$ 56,936,519
Equipment	1,298,196	297,063	-	1,595,259
Vehicles	2,480,381	254,887	90,118	2,645,150
Total capital assets, being depreciated	60,715,096	551,950	90,118	61,176,928
<b>Less accumulated depreciation:</b>				
Buildings and improvements	10,330,862	1,024,858	-	11,355,720
Equipment	106,200	117,777	-	223,977
Vehicles	1,861,553	156,791	90,118	1,928,226
Total accumulated depreciation	12,298,615	1,299,426	90,118	13,507,923
Total capital assets, being depreciated, net	48,416,481	(747,476)	-	47,669,005
Capital assets, net	\$ 49,613,416	\$ (743,570)	\$ 42,124	\$ 48,827,722

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 779,739	\$ -	\$ -	\$ 779,739
Less accumulated amortization	170,233	31,749	-	201,982
Bond issuance costs, net	\$ 609,506	\$ (31,749)	\$ -	\$ 577,757

**Amortization**

Amortization expense has been charged as unallocated amortization.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund Obligations**

The composition of interfund balances as of June 30, 2006 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 96,227
2002 Capital Projects Fund	General Fund	6,410
Other governmental funds	Other governmental funds	1,950,686
Other governmental funds	General Fund	215,562
		<u>\$ 2,268,885</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$560,000 to the Athletic Fund to finance operations and \$80,000 to the Equipment and Capital Improvement Fund to help finance school bus purchases. As part of closing the 1995 Debt Fund, the bank account balance of \$184,887 was transferred to the 2005 Debt Fund.

**NOTE G—SHORT TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
State aid anticipation note				
2004/2005 1.57% due August 2005	\$ 4,750,000	\$ -	\$ 4,750,000	\$ -
2005/2006 2.92% due August 2006	<u>-</u>	<u>4,750,000</u>	<u>-</u>	<u>4,750,000</u>
	<u>\$ 4,750,000</u>	<u>\$ 4,750,000</u>	<u>\$ 4,750,000</u>	<u>\$ 4,750,000</u>

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, and an equipment loan.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
<b>Governmental activities:</b>					
Bonds	\$ 66,201,401	\$ 762,160	\$ 2,735,462	\$ 64,228,099	\$ 2,766,407
Plus issuance premium	500,007	-	23,905	476,102	23,905
Less deferred amount on refunding	(116,190)	-	(5,555)	(110,635)	(5,555)
	66,585,218	762,160	2,753,812	64,593,566	2,784,757
Other obligations	9,923,068	1,577,365	9,749	11,490,684	24,537
Early retirement incentives	1,217,400	85,000	777,932	524,468	218,434
Compensated absences	234,121	96,759	130,309	200,571	-
	<u>\$ 77,959,807</u>	<u>\$ 2,521,284</u>	<u>\$ 3,671,802</u>	<u>\$ 76,809,289</u>	<u>\$ 3,027,728</u>

In the previous schedule, the additions for bonds represent \$762,160 of accreted interest on capital appreciation bonds. The additions for other obligations includes \$137,005 for a copier equipment capital lease, \$405,095 of accrued interest on the School Bond Loan Fund, \$1,003,871 of new draws on the School Loan Revolving Fund and \$31,394 of accrued interest on the School Loan Revolving Fund.

General obligation bonds consist of the following:

1990 Building General Obligation Bond payable in annual installments ranging from \$149,700 to \$156,887 due May 2007 to 2009; plus interest at 7.8% payable annually	\$ 460,640
1992 School Building and Site Capital Appreciation Bond payable in annual installments ranging from \$317,100 to \$452,600 due May 2013 to 2022; plus interest ranging from 6.8% to 6.85% payable annually	9,656,105

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

**Governmental activities:—Continued**

General obligation bonds—Continued

1992 Refunding Capital Appreciation Bond payable in annual installments ranging from \$125,100 to \$209,300 due May 2013 to 2017; plus interest at 6.8% payable annually	\$ 2,088,882
1997 Refunding General Obligation Bond payable in annual installments ranging from \$945,000 to \$1,700,000 due May 2007 to 2025; plus interest ranging from 4.5% to 5% payable semi-annually	20,080,000
2002 School Building and Site General Obligation Bond payable in annual installments ranging from \$450,000 to \$2,250,000 due May 2007 to 2027; plus interest ranging from 3.55% to 5.5% payable semi-annually	20,350,000
Durant obligations payable in annual installments ranging from \$47,836 to \$225,778 due May 2007 to 2013; plus interest at approximately 4.76%. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations	402,472
2005 Refunding General Obligation Bond payable in annual installments ranging from \$125,000 to \$2,085,000 due May 2007 to 2026; plus interest ranging from 3% to 5% payable semi-annually	11,190,000
Plus issuance premium	476,102
Less deferred amount on refunding	(110,635)
Total bonded debt	<u>64,593,566</u>

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

**Governmental activities:—Continued**

Other obligations

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt collections exceed annual debt service payment requirements or May 2033, whichever is sooner; interest payable of \$2,178,277 is included at 4.5%	\$ 10,328,164
--	---------------

School Loan Revolving Fund payable no later than May 2033; interest payable of \$31,394 is included at 4.685%	1,035,264
---	-----------

Capital lease obligation payable in monthly installments of \$2,694 including interest of 6.77%; final payment due February 2011	<u>127,256</u>
--	----------------

Total other obligations	11,490,684
-------------------------	------------

Early retirement incentives	524,468
-----------------------------	---------

Compensated absences	<u>200,571</u>
	<u>\$ 76,809,289</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

The annual requirements of principal and interest to amortize bonded debt, capital leases, and early retirement incentives outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 3,009,378	\$ 2,914,236	\$ 5,923,614
2008	3,049,945	2,852,602	5,902,547
2009	3,083,809	2,838,216	5,922,025
2010	3,594,211	2,168,864	5,763,075
2011	3,763,057	1,989,825	5,752,882
2012-2016	16,756,483	11,649,595	28,406,078
2017-2021	15,144,947	13,093,359	28,238,306
2022-2026	14,227,993	4,582,725	18,810,718
2027-2031	2,250,000	112,500	2,362,500
	<u>\$ 64,879,823</u>	<u>\$ 42,201,923</u>	<u>\$ 107,081,746</u>

**NOTE I—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.



Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE I—EMPLOYEE BENEFITS—Continued**

***Employee Retirement System – Defined Benefit Plan—Continued***

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$3,172,000, \$2,957,000 and \$2,664,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**Post-retirement health care benefits**

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2006 was approximately \$110,000 provided to 75 participants.

**NOTE J—COMMITMENTS AND CONTINGENCIES**

**Commitments**

- **Construction Contracts** – As of June 30, 2006, the School District had awarded construction contracts totaling approximately \$20,966 which had not yet been incurred. The contracts are the obligations of the 2002 Capital Projects Fund and the School District.
- **Operating Leases** – The School District has lease agreements expiring at various dates through March 2011. Expense for the year ended June 30, 2006 was approximately \$41,000. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

Year ending June 30,	Amount
2007	\$ 26,700
2008	17,900
2009	8,000
2010	3,000
2011	2,200
	<u>\$ 57,800</u>

Reeths-Puffer Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE J—COMMITMENTS AND CONTINGENCIES—Continued**

**Contingencies**

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE K—OTHER INFORMATION**

**Economic Dependence** – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 78 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

**NOTE L—SUBSEQUENT EVENT**

In August 2006, the School District received the proceeds of a \$4,730,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2007 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Reeths-Puffer Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,348,440	\$ 3,439,440	\$ 3,423,233	\$ (16,207)
State sources	26,534,630	27,155,485	27,257,548	102,063
Federal sources	2,488,460	2,372,080	2,277,814	(94,266)
Incoming transfers and other transactions	1,771,000	1,816,000	1,964,533	148,533
Total revenues	34,142,530	34,783,005	34,923,128	140,123
EXPENDITURES				
Instruction				
Basic programs	15,594,790	15,991,900	15,905,375	86,525
Added needs	4,098,095	4,120,490	4,054,545	65,945
Support services				
Pupil	2,726,010	2,596,535	2,664,730	(68,195)
Instructional staff	1,502,590	1,492,625	1,516,648	(24,023)
General administration	487,500	493,500	440,002	53,498
School administration	1,887,900	1,948,480	1,942,188	6,292
Business	717,760	770,000	1,006,766	(236,766)
Operations and maintenance	3,055,345	3,356,345	3,355,782	563
Pupil transportation services	1,595,580	1,950,710	1,890,472	60,238
Central	21,300	21,300	20,022	1,278
Other	442,040	433,140	430,136	3,004
Community services	86,275	84,115	86,230	(2,115)
Outgoing transfers and other transactions	1,517,025	1,306,900	1,230,150	76,750
Total expenditures	33,732,210	34,566,040	34,543,046	22,994
Excess (deficiency) of revenues over (under) expenditures	\$ 410,320	\$ 216,965	380,082	\$ 163,117
Fund balances at July 1, 2005			1,939,997	
Fund balances at June 30, 2006			\$ 2,320,079	

**STATISTICAL DATA (unaudited)**

Reeths-Puffer Schools  
**HISTORICAL PROPERTY VALUATIONS**  
 Year ended June 30, 2006  
 (Unaudited)

<u>Levy Year</u>	<u>Homestead</u>	<u>Non-homestead</u>	<u>Combined taxable value</u>	<u>Increase over prior year</u>
2005	\$ 384,608,266	\$ 174,466,456	\$ 559,074,722	6.2 %
2004	365,984,337	160,408,107	526,392,444	5.7
2003	343,649,598	154,448,429	498,098,027	6.1
2002	324,221,451	145,397,608	469,619,059	5.9
2001	296,954,146	146,473,391	443,427,537	6.5
2000	275,336,791	140,907,680	416,244,471	7.5
1999	255,066,599	132,286,453	387,353,052	6.7
1998	241,644,205	122,881,053	364,525,258	4.3
1997	222,281,455	127,119,785	349,401,240	6.4
1996	206,919,331	121,395,469	328,314,800	4.3

**Notes:**

6.0 mills levied by the State of Michigan on both Homestead and Non-Homestead taxable value.

18.0 mills local operating millage levied on Non-Homestead taxable value only.

Debt levy on both Homestead and Non-Homestead taxable value.

Source: Muskegon County Equalization Department

Reeths-Puffer Schools  
**MAJOR TAXPAYERS**  
Year ended June 30, 2006  
(Unaudited)

Taxable values as of June 30, 2006

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>	<u>IFT valuation</u>	<u>Total value</u>
Consumers Energy	Utility	\$ 61,400,603	\$ 12,054,191	\$ 73,454,794
Bayer Cropscience	Fertilizer	3,041,578	6,654,827	9,696,405
Cedar Fair LP	Amusement park	8,451,520	200,000	8,651,520
Meijer, Inc.	Retail	5,569,183	-	5,569,183
Nugent Sand Co. Inc.	Sand mining	4,524,248	-	4,524,248
DTE Energy	Utility	3,560,549	-	3,560,549
Land Management LLC	Rental real estate	1,843,295	-	1,843,295
B Park Meadows LLC	Mobile home park	1,682,000	-	1,682,000
Bolema Lumber & Supply	Rental real estate	1,362,471	1,000	1,363,471
Comcast of Muskegon	Cable TV	1,208,000	-	1,208,000
		<u>\$ 92,643,447</u>	<u>\$ 18,910,018</u>	<u>\$ 111,553,465</u>

The taxable values of the above taxpayers represent 20 percent of the School District's 2005 taxable value of \$559,074,722.

Reeths-Puffer Schools  
**SCHOOL DISTRICT TAX RATES**  
Year ended June 30, 2006  
(Unaudited)

	Year ended June 30,									
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Voted	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	<u>8.3700</u>	<u>8.3000</u>	<u>8.3700</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.1200</u>
TOTAL HOMESTEAD	8.3700	8.3000	8.3700	7.6200	7.6200	7.6200	7.6200	7.6200	7.6200	7.1200
TOTAL NON-HOMESTEAD	26.3700	26.3700	26.3700	25.6200	25.6200	25.6200	25.6200	25.6200	25.6200	25.1200

The School District's 18.0 voted mills will expire with the December 1, 2015 levy.



Reeths-Puffer Schools  
**STATE AID SUMMARY—FUNDS FROM STATE SOURCES**  
**(INCLUDING CATEGORICALS)**  
 Year ended June 30, 2006  
 (Unaudited)

Year ended June 30	Amount
2006	\$ 27,254,704
2005	27,011,561
2004	27,189,187
2003	28,818,493
2002	28,526,784
2001	26,384,304
2000	24,863,874
1999	24,231,566
1998	23,419,609
1997	22,250,615

Reeths-Puffer Schools  
**OPERATING TAX LEVIES AND COLLECTIONS**  
Year ended June 30, 2006  
(Unaudited)

<u>Year ended June 30</u>	<u>Operating tax levy</u>	<u>Collections to March 1 each year</u>		<u>Collections plus funding to June 30 each year</u>	
2006	\$ 3,140,396	\$ 2,853,653	90.87 %	\$ 3,027,863	96.42 %
2005	2,872,000	2,586,392	90.06	2,672,385	93.05
2004	2,698,346	2,585,346	95.81	2,698,346	100.00
2003	2,631,880	2,434,248	92.49	2,631,880	100.00
2002	2,636,540	2,432,577	92.26	2,636,540	100.00
2001	2,549,057	2,096,547	82.25	2,549,057	100.00
2000	2,381,156	2,225,217	93.45	2,361,004	99.15
1999	2,234,917	2,029,263	90.80	2,212,124	98.98
1998	2,231,267	2,046,046	91.70	2,230,558	99.97
1997	2,112,710	1,985,715	93.99	2,112,710	100.00

Reeths-Puffer Schools  
**LABOR FORCE**  
Year ended June 30, 2006  
(Unaudited)

A breakdown of the number of employees of Reeths-Puffer Schools (including part-time employees) and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Bargaining unit</u>	<u>Contract expiration</u>
Administrators	22	Non-Affiliated	N/A
Admin. Office Personnel/Technology	10	Non-Affiliated	N/A
Teachers	255	MEA	8/31/2007
Secretarial/Clerical	35	MEA	6/30/2008
Aides/Paraprofessionals	62	MEA	6/30/2008
Maintenance/Custodial	7	MEA	6/30/2008
Transportation	31	MEA	6/30/2008
Food Service	<u>31</u>	MEA	6/30/2008
TOTAL STAFF	<u><u>453</u></u>		

Reeths-Puffer Schools  
**PENSION FUND**  
 Year ended June 30, 2006  
 (Unaudited)

For the period from October 1, 2005 through September 30, 2006, the School District will pay an amount equal to 16.34 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2005—September 30, 2006	16.34 %
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	13.16
October 1, 2001—September 30, 2002	12.17
October 1, 2000—September 30, 2001	12.16
October 1, 1999—September 30, 2000	11.66
October 1, 1998—September 30, 1999	10.77
October 1, 1997—September 30, 1998	11.12

These contributions are required by law. The School District's contributions for the past ten years are shown below. The School District does not have an unfunded accrued liability under MPERS.

Year ending <u>June 30</u>	Paid to <u>pension fund</u>
2006	\$ 3,172,209
2005	2,956,860
2004	2,663,954
2003	2,837,317
2002	2,635,914
2001	2,509,782
2000	2,243,546
1999	1,989,302
1998	2,115,233
1997	2,567,234

Effective January 1, 1987, members of MPERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a member investment plan (MIP) which qualifies them for additional benefits. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

Reeths-Puffer Schools  
**DEBT STATEMENT—DIRECT DEBT**  
Year ended June 30, 2006  
(Unaudited)

<u>Dated</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
03/01/90	Building & Site	GOUTG	7.8 %	05/01/07-09	\$ 460,640
06/18/92	Building & Site	GOUTG	6.8-6.85	05/01/13-22	9,656,105
06/18/92	Refunding	GOUTG	6.8	05/01/13-17	2,088,882
12/01/97	Refunding	GOUTG	4.5-5	05/01/07-25	20,080,000
12/04/01	Building & Site	GOUTG	3.55-5.5	05/01/07-27	20,350,000
02/24/05	Refunding	GOUTG	3-5	05/01/07-26	<u>11,190,000</u>
NET DIRECT DEBT					<u><u>\$ 63,825,627</u></u>

Reeths-Puffer Schools  
**SCHOOL BOND LOAN FUND AND SCHOOL LOAN REVOLVING FUND PROGRAMS**  
Year ended June 30, 2006  
(Unaudited)

As of June 30, 2006, the School District has a School Bond Loan Fund balance of \$10,328,164 and a School Loan Revolving Fund balance of \$1,035,264.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason, the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund or School Loan Revolving Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

Reeths-Puffer Schools  
**SCHOOL ENROLLMENT**  
 Year ended June 30, 2006  
 (Unaudited)

Historical enrollment for the School District is as follows:

<u>School year</u>	<u>Enrollment</u>	<u>School year</u>	<u>Enrollment</u>
2005/06	4,239	2000/01	4,583
2004/05	4,271	1999/00	4,575
2003/04	4,358	1998/99	4,586
2002/03	4,509	1997/98	4,564
2001/02	4,532	1996/97	4,499

Enrollment by grades—2004/05 is as follows:

Kindergarten	359	Seventh	357
First	273	Eighth	324
Second	282	Ninth	375
Third	299	Tenth	355
Fourth	275	Eleventh	359
Fifth	288	Twelfth	320
Sixth	319	Special Ed.	<u>54</u>
		TOTAL	<u><u>4,239</u></u>

Reeths-Puffer Schools  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2006



## CONTENTS

### FINANCIAL REPORTS AND INDEPENDENT AUDITORS' REPORTS

#### INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	4
---	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	6
--	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	9
---	---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	10
---	----

#### CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	13
--	----

CORRECTIVE ACTION PLAN .....	15
------------------------------	----

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 7, 2006

Board of Education  
Reeths-Puffer Schools  
Muskegon, Michigan

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

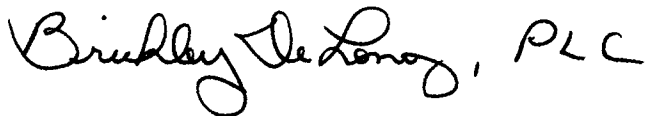
In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Reeths-Puffer Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

***Compliance***

As part of obtaining reasonable assurance about whether Reeths-Puffer Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 7, 2006

Board of Education  
Reeths-Puffer Schools  
Muskegon, Michigan

### *Compliance*

We have audited the compliance of Reeths-Puffer Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2006. Reeths-Puffer Schools' cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express an opinion on Reeths-Puffer Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reeths-Puffer Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reeths-Puffer Schools' compliance with those requirements.

In our opinion, Reeths-Puffer Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2006.

### *Internal Control Over Compliance*

The management of Reeths-Puffer Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education  
September 7, 2006  
Page 2

*Internal Control Over Compliance—Continued*

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

*Schedule of Expenditures of Federal Awards*

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated September 7, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, P.C.*

Reeths-Puffer Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Education</i>									
Direct program:									
Indian Education Title IV, Part A	84.060A								
S060A010736		\$ 24,937	\$ (1,390)	\$ -	\$ 23,547	\$ -	\$ 23,547	\$ (1,390)	
E060A040736		24,910	24,910	24,910	24,910	-	24,910	-	
B060A050736		24,239	-	-	-	24,239	24,239	24,239	
Total direct programs		74,086	23,520	24,910	48,457	24,239	72,696	22,849	
Passed through Michigan									
Department of Education:									
Title I Part A	84.010								
051530 0405		288,328	47,260	53,323	282,265	6,063	288,328	-	
051530 0506		50,764	-	-	-	50,764	50,764	50,764	
061530 0506		269,692	-	153,350	-	263,629	263,629	110,279	
		608,784	47,260	206,673	282,265	320,456	602,721	161,043	
Title V LEA Allocation	84.298								
050250 0405		2,628	2,628	2,628	2,628	-	2,628	-	
060250 0506		1,728	-	1,728	-	1,728	1,728	-	
		4,356	2,628	4,356	2,628	1,728	4,356	-	
Technology Literacy Challenge Grant	84.318								
054290 0405		8,618	1,188	1,188	8,618	-	8,618	-	
064290 0506		5,801	-	5,801	-	5,801	5,801	-	
		14,419	1,188	6,989	8,618	5,801	14,419	-	
Improving Teacher Quality	84.367								
050520 0405		162,992	7,401	7,401	162,992	-	162,992	-	
060520 0506		163,718	-	93,095	-	163,718	163,718	70,623	
		326,710	7,401	100,496	162,992	163,718	326,710	70,623	
Total passed through Michigan Department of Education		954,269	58,477	318,514	456,503	491,703	948,206	231,666	

Reeths-Puffer Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Education—Continued</i>									
Passed through Muskegon Area Intermediate School District:									
Special Education Cluster									
I.D.E.A. 101-476	84.027								
0454		\$ 1,516,886	\$ 226,915	\$ 226,915	\$ 1,516,586	\$ -	\$ 1,516,586	\$ -	3
0455		1,794,202	518,802	982,613	1,313,132	481,070	1,794,202	17,259	4
0456		1,571,084	-	1,066,780	-	1,082,199	1,082,199	15,419	
Youth Development		32,500	-	32,500	-	32,500	32,500	-	
		<u>4,914,672</u>	<u>745,717</u>	<u>2,308,808</u>	<u>2,829,718</u>	<u>1,595,769</u>	<u>4,425,487</u>	<u>32,678</u>	
I.D.E.A. 101-476	84.173								
0465		109,508	36,029	36,029	109,508	-	109,508	-	
0466		100,551	-	95,992	-	97,492	97,492	1,500	
		<u>210,059</u>	<u>36,029</u>	<u>132,021</u>	<u>109,508</u>	<u>97,492</u>	<u>207,000</u>	<u>1,500</u>	
Total Special Education Cluster		<u>5,124,731</u>	<u>781,746</u>	<u>2,440,829</u>	<u>2,939,226</u>	<u>1,693,261</u>	<u>4,632,487</u>	<u>34,178</u>	
Safe and Drug Free Schools and Communities	84.186								
2860 2005-2006		<u>16,254</u>	<u>-</u>	<u>16,254</u>	<u>-</u>	<u>16,254</u>	<u>16,254</u>	<u>-</u>	
Total passed through Muskegon Area Intermediate School District		<u>5,140,985</u>	<u>781,746</u>	<u>2,457,083</u>	<u>2,939,226</u>	<u>1,709,515</u>	<u>4,648,741</u>	<u>34,178</u>	
Total U.S. Department of Education		6,169,340	863,743	2,800,507	3,444,186	2,225,457	5,669,643	288,693	
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education:									
National School Lunch and Breakfast									
Entitlement commodities	10.550	41,037	-	41,037	-	41,037	41,037	-	
Bonus commodities		<u>4,807</u>	<u>-</u>	<u>4,807</u>	<u>-</u>	<u>4,807</u>	<u>4,807</u>	<u>-</u>	
		<u>45,844</u>	<u>-</u>	<u>45,844</u>	<u>-</u>	<u>45,844</u>	<u>45,844</u>	<u>-</u>	

Reeths-Puffer Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
<b><i>U.S. Department of Agriculture—Continued</i></b>									
Child Nutrition Cluster									
051970 Lunch—Breakfast	10.553	\$ 80,912	\$ -	\$ 6,982	\$ 73,930	\$ 6,982	\$ 80,912	\$ -	
061970 Lunch—Breakfast		81,531	-	81,531	-	81,531	81,531	-	
		162,443	-	88,513	73,930	88,513	162,443	-	
051950 All lunches	10.555	77,565	-	8,863	68,702	8,863	77,565	-	
061950 All lunches		68,801	-	68,801	-	68,801	68,801	-	
051960 Free and reduced		311,422	-	36,504	274,918	36,504	311,422	-	
061960 Free and reduced		287,525	-	287,525	-	287,525	287,525	-	
		745,313	-	401,693	343,620	401,693	745,313	-	
Total Child Nutrition Cluster		907,756	-	490,206	417,550	490,206	907,756	-	
Total passed through U.S. Department of Education		953,600	-	536,050	417,550	536,050	953,600	-	
Passed through County of Muskegon:									
Schools and Roads	10.665	347	-	347	-	347	347	-	
Total U.S. Department of Agriculture		953,947	-	536,397	417,550	536,397	953,947	-	
<b><i>U.S. Department of Health and Human Services</i></b>									
Passed through Muskegon Area Intermediate School District									
Medical Assistance Program Title XIX 393	93.778	23,724	-	23,724	-	23,724	23,724	-	
<b><i>Corporation for National and Community Service</i></b>									
Passed through Michigan Community Service Commission:									
AmeriCorps Learn and Serve	94.004								
2004-2005		24,500	16,772	16,772	24,500	-	24,500	-	
30600/26673		8,660	-	3,286	-	3,286	3,286	-	
		33,160	16,772	20,058	24,500	3,286	27,786	-	
Passed through Points of Light Foundation									
LSA Homeland Security Initiative RFP 04KSHDC001	94.004	25,000	-	25,000	-	25,000	25,000	-	
Total Corporation for National and Community Service		58,160	16,772	45,058	24,500	28,286	52,786	-	
TOTAL FEDERAL ASSISTANCE		\$ 7,205,171	\$ 880,515	\$ 3,405,686	\$ 3,886,236	\$ 2,813,864	\$ 6,700,100	\$ 288,693	

Reeths-Puffer Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Accrued revenue as of July 1, 2005 was understated by \$298.
4. Accrued revenue as of July 1, 2005 was overstated by \$3781.
5. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of expenditures of federal awards.

Revenues from federal sources per June 30, 2006

Governmental funds financial statements

General Fund	\$ 2,277,814	
Other governmental funds (includes Food Service Fund)	<u>536,050</u>	\$ <u><u>2,813,864</u></u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		\$ <u><u>2,813,864</u></u>
--	--	----------------------------



Reeths-Puffer Schools  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2006

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Reeths-Puffer Schools.
2. *One (1)* reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. *No* instances of noncompliance material to the financial statements of Reeths-Puffer Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule. The condition is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for Reeths-Puffer Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The cluster of programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i> Special Education Cluster	84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Reeths-Puffer Schools was determined to be a low-risk auditee.

Reeths-Puffer Schools  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended June 30, 2006

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**REPORTABLE CONDITIONS**

**Fiscal 2006 Finding No. 1: Documentation of Vendor Credit Card Transaction Procedures**

*Condition:* Of the sixty-four vendor card transactions selected for testing, we noted that thirty-four such vendor card transactions did not have documentation supporting the business purpose, sixteen did not have adequate receipts and none had documented approval.

*Effect:* Documentation supporting business purpose or approval would not be available upon request.

*Recommendation:* Vendor credit card invoices should have documentation supporting business purpose and approval for payment prior to check preparation.

*Questioned Costs:* None

*School District Response:* School District management are in agreement with the finding and recommendation. During the year ended June 30, 2006, School District management made improvement in implementing this repeat recommendation from the prior fiscal year audit. The School District will continue its efforts to fully implement this recommendation during the year ending June 30, 2007.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

NONE

**REPORTABLE CONDITIONS**

NONE

## **CLIENT DOCUMENTS**

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 7, 2006

Michigan Department of Education  
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated September 9, 2005.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

#### COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

#### REPORTABLE CONDITIONS

##### **Fiscal 2005 Finding No. 1: Coding of Transactions Procedures**

*Condition:* We noted numerous transactions were recorded in general ledger accounts not consistent with the State of Michigan standard chart of accounts.

*Recommendation:* Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.

*Current Status:* This recommendation was implemented during the year ended June 30, 2006. No similar finding was reported as a result of the independent audit of our financial statements for the year ended June 30, 2006.

##### **Fiscal 2005 Finding No. 2: Documentation of Vendor Credit Card Transaction Procedures**

*Condition:* We noted numerous vendor credit card transactions selected did not have documentation supporting the business purpose and/or approval.

*Recommendation:* Vendor credit card invoices should have documentation supporting business purpose and approval for payment prior to check preparation.

*Current Status:* The School District made significant progress in implementing this recommendation during the year ended June 30, 2006. The School District will continue its efforts to fully implement this recommendation during the year ending June 30, 2007.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

There were *no* compliance findings reported in relation to major federal award programs.

**REPORTABLE CONDITIONS**

There were *no* reportable conditions reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink that reads "Dean Van Zegeren". The signature is written in a cursive, flowing style.

Dean Van Zegeren  
Assistant Superintendent

## CORRECTIVE ACTION PLAN

September 7, 2006

Michigan Department of Education  
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

#### COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

#### REPORTABLE CONDITIONS

##### **Fiscal 2006 Finding No. 1: Documentation of Vendor Credit Card Transaction Procedures**

*Recommendation:* Vendor credit card invoices should have documentation supporting business purpose and approval for payment prior to check preparation.

*Action Taken:* During the year ended June 30, 2006, the School District made significant progress implementing this repeat recommendation from the prior year audit. During the year ending June 30, 2007, the School District will continue its efforts to fully implement this recommendation.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

There were *no* compliance findings reported in relation to major federal award programs.

**REPORTABLE CONDITIONS**

There were *no* reportable conditions reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Stephen E. Cousins at (231) 744-4736.

Sincerely,

A handwritten signature in black ink that reads "Dean Van Zegeren". The signature is written in a cursive, flowing style.

Dean Van Zegeren  
Assistant Superintendent

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 7, 2006

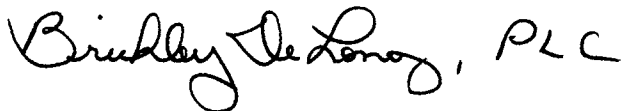
Board of Education  
Reeths-Puffer Schools  
Muskegon, Michigan

In planning and performing our audit of the financial statements of Reeths-Puffer Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Reeths-Puffer Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.



## REPORTABLE CONDITIONS

Recommendation 1: Vendor credit card invoices should have documentation supporting business purpose and approval for payment prior to check preparation.

The School District maintains vendor credit cards. The School District policy appropriately requires such vendor credit cards to be signed out from the Business Office prior to use and to have supporting documentation returned to the Business Office.

During our audit testing of a sample of vendor credit card transactions, we noted some vendor credit card transactions did not have receipts and documentation of business purpose attached. We further noted that none of the selected transactions had documented approval.

The requirement for documentation supporting vendor credit card invoices and approval would enable the School District to have such documentation available on request.